

Introduced by Senator Monning

May 28, 2014

Senate Joint Resolution No. 28—Relative to earthquake insurance.

LEGISLATIVE COUNSEL'S DIGEST

SJR 28, as introduced, Monning. Earthquake insurance: affordability.

This measure would memorialize the President of the United States and the Congress of the United States to enact the Earthquake Insurance Affordability Act.

Fiscal committee: no.

1 WHEREAS, The magnitude 6.7 Northridge Earthquake in 1994
2 was the costliest natural disaster in the history of the State of
3 California to date, with more than \$25 billion in property damage,
4 and \$49 billion in economic losses to the region and the state; and
5 WHEREAS, A major earthquake in the San Francisco Bay area
6 or in southern California could have an even greater impact than
7 Hurricane Katrina had in Louisiana and Mississippi; and
8 WHEREAS, Risk Management Solutions, Inc., estimated the
9 potential cost of a repeat of the 1906 San Francisco earthquake at
10 \$260 billion, and a magnitude 7.0 earthquake rupturing the southern
11 and northern Hayward Fault between \$210 and \$235 billion; and
12 WHEREAS, The seven southern California counties that would
13 be most affected by an earthquake on the southern San Andreas
14 Fault are home to 621,000 businesses, 6.3 million employees, and
15 an annual payroll of \$303.3 billion; and
16 WHEREAS, A magnitude 7.8 southern California earthquake
17 modeled by the United States Geological Survey and the Southern
18 California Earthquake Center at the University of Southern

1 California in 2008 found that such an earthquake could cause more
2 than \$213 billion in damage, and affect roughly 1 out of every 15
3 workers in the United States, and that the nationwide toll on
4 unemployment and lost productivity could be severe; and

5 WHEREAS, Risks from flood and earthquake are generally not
6 included in homeowners' insurance and must be purchased
7 separately, but few homeowners purchase earthquake insurance
8 for many reasons, including its high cost; and

9 WHEREAS, The National Flood Insurance Program makes
10 federally backed flood insurance available to homeowners, renters,
11 and business owners in exchange for state and community
12 floodplain management regulations that reduce future flood
13 damages; and

14 WHEREAS, Unlike flood insurance, there is no requirement at
15 the federal or state level to obtain earthquake insurance for
16 purposes of securing financing for real property located in high
17 risk areas, leaving the mortgage industry, including Fannie Mae
18 and Freddie Mac, effectively the insurer of last resort; and

19 WHEREAS, Under current federal law, earthquake insurance
20 premiums that are collected and not used for claims arising within
21 the year of collection are taxed and there is no ability to reserve
22 profits or accumulate capital for future losses, leading to the need
23 for higher premiums; and

24 WHEREAS, California Senators Dianne Feinstein and Barbara
25 Boxer have introduced the Earthquake Insurance Affordability
26 Act (EIAA) that would authorize a federal guarantee of limited
27 postearthquake borrowing by actuarially sound state residential
28 earthquake insurance programs; and

29 WHEREAS, The EIAA would lower the cost of earthquake
30 insurance for homeowners who buy coverage from nonprofit, state
31 earthquake insurance programs and direct funding to effective
32 seismic-mitigation measures; and

33 WHEREAS, The EIAA would allow the California Earthquake
34 Authority to sell postevent bonds in the private capital market,
35 reducing the need to purchase reinsurance preevent and resulting
36 in rate reductions and lower deductibles; and

37 WHEREAS, With more Californians insured, postevent disaster
38 assistance would cost less to both the state and the federal
39 government, and communities could recover more quickly; and

1 WHEREAS, A Congressional Budget Office analysis of a similar
2 bill introduced in 2007 estimated that the cost to the federal
3 government for loan guarantees and postdisaster loans would be
4 negligible; now, therefore, be it

5 *Resolved by the Senate and the Assembly of the State of*
6 *California, jointly,* That the Legislature memorializes the President
7 and the Congress of the United States to enact the Earthquake
8 Insurance Affordability Act; and be it further

9 *Resolved,* That the Secretary of the Senate transmit copies of
10 this resolution to the President and Vice President of the United
11 States, to the Speaker of the House of Representatives, to the
12 Majority Leader of the Senate, to each Senator and Representative
13 from California in the Congress of the United States, and to the
14 author for appropriate distribution.

O